

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Charlevoix Emmet ISD	County Charlevoix
Audit Date June 30, 2005	Opinion Date July 29, 2005	Date Accountant Report Submitted to State: November 11, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

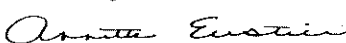
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | | | | |
|--------------------------|-----|-------------------------------------|----|---|
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	x		
Reports on individual federal financial assistance programs (program audits).			x
Single Audit Reports (ASLGU).	x		

Certified Public Accountant (Firm Name) REHMANN ROBSON Annette Eustice, CPA, CFGM			
Street Address 902 South Huron	City Cheboygan	State MI	Zip 49721
Accountant Signature  , CPA, CGFM			



Charlevoix-Emmet Intermediate School District

**Financial Statements
and
Supplementary Information**

**For the Fiscal Year Ended
June 30, 2005**

CHARLEVOIX-EMMET INTERMEDIATE SCHOOL DISTRICT

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



INDEPENDENT AUDITORS' REPORT

July 29, 2005

Board of Education
Charlevoix-Emmet Intermediate School District
Charlevoix, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Charlevoix-Emmet Intermediate School District** (the "District"), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

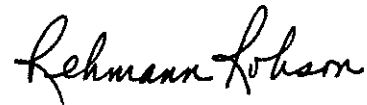
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2005, and the respective changes in financial position, thereof and the respective budgetary comparison for general fund and each major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 29, 2005 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3-7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is also not a required part of the basic financial statements of the District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, prominent 'L' at the beginning.

Management's Discussion and Analysis

The Management Discussion and Analysis, a requirement of GASB 34, is intended to be the Charlevoix-Emmet Intermediate School District ("the District") management's overview of the financial results for the year ended June 30, 2005.

FINANCIAL HIGHLIGHTS

The overall condition of all funds remains very strong for the District. All goals related to financial activities have been met in the past year. If current revenue and expenditure patterns can be maintained, the resources for the following year will be available to meet the District's financial needs.

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$11.94 million (net assets).

The District's total net assets decreased by \$546,349 this year. This is primarily due to the increased appropriations to local school districts.

At the end of the current fiscal year, the aggregated fund balance for the District's operational funds (General Fund, Special Education Fund, and Vocational Education Fund) was \$7,913,188.

USING THIS ANNUAL REPORT

GASB 34 requires the District's financial statements be comprised of three components: government-wide financial statements, fund financial statements, and the notes to the financial statements.

The statements are organized so the reader can understand the District as a whole (government-wide statements), and then to provide an increasingly detailed look at specific financial statements (fund financial statements). Also included are various notes to the financial statements. The audit also contains supplemental information in addition to the basic financial statements themselves.

Reporting the District as a Whole

Government-wide financial statements

One of the most important questions asked regarding the District's finances is, "Is the District better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the District as a whole and about its activities to help address this question. These statements include all assets and liabilities of the District accounted for using the accrual basis of accounting similar to that used by the private sector corporations. All of the current year's revenues and expenditures are taken into consideration regardless of when cash is received or paid.

The two statements report the District's net assets and any changes in them. The change in net assets provides the reader a tool to assist in determining whether the District's financial health is improving or deteriorating. The reader will need to consider other non-financial factors such as the property tax base, political conditions at the State level, student enrollment growth, quality of local service, and facility improvements prior to arriving at any conclusion regarding the overall health of the District.

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds, not the District as a whole. The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." The two types of funds: governmental funds and fiduciary funds use different accounting methods as further discussed in the notes to the financial statements.

Governmental Funds

Most of the District's activities are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for future periods. These funds are reported using the modified accrual basis of accounting, which measures cash and other financial assets that can be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources available to spend in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The accrual basis of accounting is used to account for fiduciary funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table I provides a summary of the District's net assets as of June 30, 2005 and 2004:

<u>Governmental Activities</u> (in millions)		
	<u>2005</u>	<u>2004</u>
Assets		
Current assets	\$ 10.49	\$ 11.23
Noncurrent assets	<u>3.65</u>	<u>3.35</u>
Total assets	<u>14.14</u>	<u>14.58</u>
Liabilities		
Current liabilities	1.39	1.25
Noncurrent liabilities	<u>0.81</u>	<u>0.85</u>
Total liabilities	<u>2.20</u>	<u>2.10</u>

Governmental Activities (continued)
(in millions)

	<u>2005</u>	<u>2004</u>
Net assets		
Invested in capital assets, net of related debt	\$ 2.80	\$ 2.50
Restricted	6.59	7.09
Unrestricted	<u>2.55</u>	<u>2.89</u>
Total net assets	<u>\$ 11.94</u>	<u>\$ 12.48</u>

The District currently reports positive balances in each category of net assets. With the exception of the State Obligated "Durant Bonds," the District remains free of long-term debt.

The results of fiscal 2005 and 2004 operations for the District as a whole are presented in the statement of activities, which shows the changes in net assets for fiscal year 2005 and 2004.

Governmental Activities
(in millions)

	<u>2005</u>	<u>2004</u>
Revenue		
Program revenue		
Charges for services	\$ 1.38	\$ 1.43
Operating grants and contributions	7.53	4.08
General revenue		
Property taxes	11.49	10.44
State school aid	0.65	3.88
Other	<u>0.13</u>	<u>0.04</u>
Total revenue	<u>21.18</u>	<u>19.87</u>
Functions/Program Expenses		
Instruction	3.44	3.66
Supporting services	12.47	11.31
Food service	0.02	0.01
Transfers to other local units and other services	<u>5.80</u>	<u>4.82</u>
Total expenses	<u>21.73</u>	<u>19.80</u>
(Decrease) increase in net assets	<u>\$ (.55)</u>	<u>\$ 0.07</u>

As reported in the Statement of Activities, the cost of all *governmental activities* this year was \$21.73 million. While \$11.49 million in revenue was generated directly from local taxpayers, another \$1.38 million was generated through "charges for actual services" by local districts, other ISDs, or individuals that benefited directly from our services. State, federal, and other regional grants and programs brought \$7.53 million to the District. The District received over \$.78 million in state school aid and other sources, inclusive of investment earnings.

Net Assets for the year ended June 30, 2005 decreased by \$.55 million. A key factor related to this change was a 21% increase (\$.98 million) in transfers to local school districts.

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS

The District's budgets are prepared in accordance with Michigan Law. The most significant budgeted funds are the General Fund, Special Education Fund, and the Vocational Education Fund.

During fiscal 2005, the District amended the budgets of these major governmental funds twice. This has been the normal business practice of the District.

Due to the nature of grant awards throughout the year, the General Fund budget changed significantly from the beginning to the end of the year.

General Fund

The General Fund expenditures exceeded revenues in fiscal 2005 by \$187,030. This is primarily due to decrease in Section 81 Revenue of \$63,280, increase in unemployment expense for previously laid off employees in the amount of \$62,943, increase in executive allocation to General Fund to adhere to State regulations in the amount of \$278,183, increase tax revenue in the amount of \$40,589, increase in Section 32d funding in the amount of \$102,248 and increase in interest earnings in the amount of \$13,081. Budgeted amounts for both revenues and expenditures were within 1%, respectively of the actual audited amounts.

Special Education

The Special Education Fund had revenues exceed expenditures in fiscal 2005 by \$448,028. The budgeted amounts in the Special Education Fund were within 1% of the actual amounts.

Vocational Education

Vocational Education expenditures exceeded revenues in fiscal 2005 by \$816,652. These funds were distributed per the District's Vocational Education program plan, as approved by the District's voters. The decrease was caused by a \$600,000 distribution to local districts, \$284,655 local district curriculum and student software and training, \$199,908 network connectivity dollars paid to locals, and \$140,000 increase in property tax revenue. The budgeted amounts for vocational education fund were within 2% (revenues) and 1% (expenditures), respectively of the actual audited amounts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

The District's investment in capital assets as of June 30, 2005 amounted to \$3,652,128. These assets have accumulated \$1,237,161 of depreciation. Our capitalized assets include our buildings, land, and transportation fleet. During this fiscal year net capital assets increased by \$301,445. A categorized listing of the assets is highlighted below:

Capital Assets, Net

	<u>2005</u>	<u>2004</u>
Land	\$ 477,145	\$ 477,145
Land improvements	421,287	45,296
Buildings	1,883,330	1,926,311
Building improvements	117,578	120,046
Vehicles	627,959	696,288
Equipment	<u>124,829</u>	<u>85,597</u>
Total net assets	<u>\$3,652,128</u>	<u>\$3,350,683</u>

Long-term debt

The District currently holds \$848,573 of the Durant Resolution School Improvement Bonds. The bonds are a legal obligation of the District, but the only repayment source is a State of Michigan appropriation equal to the annual payment of the bonds and interest. If the legislature fails to make such an appropriation, the District is under no obligation for payment.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The economy of the State of Michigan has dramatically slowed and forecasts project shortages in both the State's General Fund and the State School Aid Fund for the upcoming year. The exact implications to the District are unknown. Our fiscal 2005 budgets were prepared with these factors in mind.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Lisa M. Krosnicki
Business Manager
Charlevoix-Emmet Intermediate School District
08568 Mercer Blvd.
Charlevoix, MI 49720

CHARLEVOIX-EMMET INTERMEDIATE SCHOOL DISTRICT

STATEMENT OF NET ASSETS - GOVERNMENTAL ACTIVITIES

JUNE 30, 2005

ASSETS	
Current assets	
Cash and cash equivalents	\$ 7,290,988
Taxes receivable	465,237
Due from other governmental units	2,733,304
Inventories	2,525
Total current assets	10,492,054
Noncurrent assets	
Capital assets not being depreciated	477,145
Capital assets being depreciated	3,174,983
Total noncurrent assets	3,652,128
Total assets	14,144,182
LIABILITIES	
Current liabilities	
Accounts payable	92,693
Accrued liabilities	905,634
Accrued interest payable	110,623
Due to other governmental units	85,389
Unearned revenue	135,145
Bonds payable due in one year	64,292
Total current liabilities	1,393,776
Noncurrent liabilities	
Accrued compensated absences	26,244
Bonds payable in more than one year	784,281
Total noncurrent liabilities	810,525
Total liabilities	2,204,301
Net assets	
Invested in capital assets, net of related debt	2,803,555
Restricted for	
Special education	5,204,723
Vocational education	1,384,335
Capital project	169
Unrestricted	2,547,099
Total net assets	\$ 11,939,881

The accompanying notes are an integral part of these financial statements.

CHARLEVOIX-EMMET INTERMEDIATE SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2005

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$ 3,445,059	\$ 447,013	\$ 2,357,975	\$ (640,071)
Supporting services	12,469,945	932,480	5,095,905	(6,441,560)
Food service	15,237	3,071	9,576	(2,590)
Transfers to other local units and other services	5,772,410	-	68,675	(5,703,735)
Interest on long-term debt	31,539	-	-	(31,539)
Total governmental activities	\$ 21,734,190	\$ 1,382,564	\$ 7,532,131	(12,819,495)
General revenue				
Property taxes				11,490,611
State school aid				648,570
Unrestricted investment earnings				133,965
Total general revenue				12,273,146
Change in net assets				(546,349)
Net assets, beginning of year				12,486,230
Net assets, end of year				\$ 11,939,881

The accompanying notes are an integral part of these financial statements.

CHARLEVOIX-EMMET INTERMEDIATE SCHOOL DISTRICT

BALANCE SHEET GOVERNMENTAL FUNDS

JUNE 30, 2005

	General Fund	Special Education Fund	Vocational Education Fund
Assets			
Cash and cash equivalents	\$ 1,157,110	\$ 4,902,370	\$ 1,230,207
Taxes receivable	31,572	313,046	120,619
Due from other funds	-	227,786	27,788
Due from other governmental units	794,958	510,682	68,960
Inventories	2,459	66	-
Total assets	\$ 1,986,099	\$ 5,953,950	\$ 1,447,574
Liabilities and fund balances			
Liabilities			
Accounts payable	\$ 29,878	\$ 36,826	\$ 25,989
Accrued liabilities	159,225	709,159	37,250
Due to other governmental units	85,389	-	-
Due to other funds	252,332	3,242	-
Deferred revenue	135,145	-	-
Total liabilities	661,969	749,227	63,239
Fund balances			
Reserved			
Inventories	2,459	66	-
Insurance pool	117,198	-	-
Unreserved			
Designated for Vocational program development	-	-	723,910
Designated for transportation consortium	128,715	-	-
Designated for employee conferences	15,958	82,419	3,177
Designated for employee severances	100,000	350,000	-
Designated for transportation	-	200,000	-
Designated for building improvements	200,000	850,000	-
Designated for technology replacement	200,000	480,000	-
Designated for regional equipment	-	-	46,195
Designated for special projects	-	200,000	92,390
Designated for connectivity	-	250,000	199,908
Designated for capital outlay	100,000	350,000	-
Undesignated	459,800	2,442,238	318,755
Total fund balances	1,324,130	5,204,723	1,384,335
Total liabilities and fund balances	\$ 1,986,099	\$ 5,953,950	\$ 1,447,574

The accompanying notes are an integral part of these financial statements.

Debt Service Fund	Capital Project Fund	Non Major	Total Governmental Funds
		School Lunch Fund	
\$ -	\$ 169	\$ 1,132	\$ 7,290,988
-	-	-	465,237
-	-	-	255,574
848,573	398,474	1,034	2,622,681
-	-	-	2,525
\$ 848,573	\$ 398,643	\$ 2,166	\$ 10,637,005
\$ -	\$ -	\$ -	\$ 92,693
-	-	-	905,634
-	-	-	85,389
-	-	-	255,574
848,573	398,474	-	1,382,192
848,573	398,474	-	2,721,482
-	-	-	2,525
-	-	-	117,198
-	-	-	723,910
-	-	-	128,715
-	-	-	101,554
-	-	-	450,000
-	-	-	200,000
-	-	-	1,050,000
-	-	-	680,000
-	-	-	46,195
-	-	-	292,390
-	-	-	449,908
-	-	-	450,000
-	169	2,166	3,223,128
-	169	2,166	7,915,523
\$ 848,573	\$ 398,643	\$ 2,166	\$ 10,637,005

Continued ...

CHARLEVOIX-EMMET INTERMEDIATE SCHOOL DISTRICT

BALANCE SHEET

JUNE 30, 2005

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets

Fund balances - total governmental funds	\$ 7,915,523
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Amounts reported for governmental activities in the statement of net assets are different because capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets	4,889,289
Deduct - accumulated depreciation	(1,237,161)

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds

Add - deferred Durant settlement receivable and Durant bonds receivable	1,247,047
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Receivables in the statement of net assets do not provide current financial resources are not reported as receivables in the funds

Add - accrued interest on Durant bonds	110,623
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - bonds payable	(848,573)
Deduct - accrued compensated absences	(26,244)
Deduct - accrued interest on bonds payable	(110,623)

Net assets of governmental activities	<u>\$ 11,939,881</u>
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Concluded

The accompanying notes are an integral part of these financial statements.

CHARLEVOIX-EMMET INTERMEDIATE SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2005

	General Fund	Special Education Fund	Vocational Education Fund
Revenues			
Local sources			
Property tax levy	\$ 781,473	\$ 7,716,217	\$ 2,985,704
Other taxes	26	7,093	98
Food service	-	-	-
Earnings on investments	26,164	69,931	37,287
Service to local school districts	471,247	-	-
Sale of capital assets	9,150	8,050	-
Other local sources	1,040,763	286,307	1,319
State sources			
State aid	1,553,839	2,623,843	379,059
Federal sources	712,804	2,203,551	222,181
Total revenues	<u>4,595,466</u>	<u>12,914,992</u>	<u>3,625,648</u>
Expenditures			
Current			
Instruction	1,003,086	2,318,109	55,377
Supporting services	3,272,731	7,883,114	1,244,096
Community services	2,558	29,633	-
Transfers to locals and other services	502,121	2,134,817	3,142,827
Capital outlay	-	101,291	-
Total expenditures	<u>4,780,496</u>	<u>12,466,964</u>	<u>4,442,300</u>
Revenues (under) over expenditures	<u>(185,030)</u>	<u>448,028</u>	<u>(816,652)</u>
Other financing sources (uses)			
Transfers in	-	-	-
Transfers out	(2,000)	-	-
Total other financing sources (uses)	<u>(2,000)</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>(187,030)</u>	<u>448,028</u>	<u>(816,652)</u>
Fund balances, beginning of year	1,511,160	4,756,695	2,200,987
Fund balances, end of year	<u><u>\$ 1,324,130</u></u>	<u><u>\$ 5,204,723</u></u>	<u><u>\$ 1,384,335</u></u>

The accompanying notes are an integral part of these financial statements.

Debt Service Fund	Capital Project Fund	Non-Major School Lunch Fund	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 11,483,394
-	-	-	7,217
-	-	3,071	3,071
-	583	-	133,965
-	-	-	471,247
-	-	-	17,200
-	-	-	1,328,389
-	132,825	1,150	4,690,716
-	-	9,596	3,148,132
-	133,408	13,817	21,283,331
-	-	-	3,376,572
-	-	15,239	12,415,180
-	-	-	32,191
-	-	-	5,779,765
-	267,057	-	368,348
-	267,057	15,239	21,972,056
-	(133,649)	(1,422)	(688,725)
-	-	2,000	2,000
-	-	-	(2,000)
-	-	2,000	-
-	(133,649)	578	(688,725)
-	133,818	1,588	8,604,248
\$ -	\$ 169	\$ 2,166	\$ 7,915,523

Continued ...

CHARLEVOIX-EMMET INTERMEDIATE SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCES GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2005

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Net change in fund balances - governmental funds \$ (688,725)

Amounts reported for governmental activities in the statement of activities are different because

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	536,686
Deduct - depreciation expense	(209,052)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Deduct - payments received on long-term Durant settlement receivable	(132,825)
Add - payments to be received for accrued interest on Durant bonds	110,623

The statement of activities report losses arising from the trade-in of existing capital assets to acquire new capital assets. Conversely, governmental funds do not report any gain or loss on a trade-in of capital assets.

(26,189)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the statement of revenues, expenditures and changes in fund balances.

Subtract - increase in accrued compensated absences	(26,244)
Subtract - increase in accrued interest payable on bonds	(110,623)

Change in net assets of governmental activities

\$ (546,349)

Concluded

The accompanying notes are an integral part of these financial statements.

CHARLEVOIX-EMMET INTERMEDIATE SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL GENERAL AND MAJOR SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED JUNE 30, 2005

	General Fund		
	Budget Amounts		Actual
	Original	Final	Over (Under) Final Budget
Revenues			
Local sources	\$ 2,290,255	\$ 2,322,755	\$ 2,328,823
State sources	1,334,329	1,546,972	1,553,839
Federal sources	651,616	702,845	712,804
Total revenues	4,276,200	4,572,572	4,595,466
Expenditures			
Current			
Instruction			
Compensatory education	1,014,999	1,009,906	1,003,086
Added needs	72,950	-	-
Supporting services			
Pupil services	456,052	793,113	800,878
Instructional staff	743,540	743,565	727,518
General administration	464,294	563,506	564,333
Business services	619,804	658,493	657,585
Operation and maintenance	132,368	174,554	162,999
Pupil transportation	97,855	84,426	82,745
Other support	307,426	286,183	276,673
Community service	4,201	3,485	2,558
Acquisition of facilities	-	-	-
Payments to other local governmental units	443,697	502,898	502,121
Total expenditures	4,357,186	4,820,129	4,780,496
Revenues over (under) expenditures	(80,986)	(247,557)	(185,030)
Other financing uses			
Transfers out	(3,500)	(2,000)	(2,000)
Net change in fund balances	(84,486)	(249,557)	(187,030)
Fund balances, beginning of year	1,511,160	1,511,160	1,511,160
Fund balances, end of year	\$ 1,426,674	\$ 1,261,603	\$ 1,324,130

The accompanying notes are an integral part of these financial statements.

Special Education Fund				Vocational Education Fund			
Budget Amounts		Actual	Actual Over (Under) Final Budget	Budget Amounts		Actual	Actual Over (Under) Final Budget
Original	Final			Original	Final		
\$ 7,522,869	\$ 8,127,575	\$ 8,087,598	\$ (39,977)	\$ 2,839,058	\$ 2,948,812	\$ 3,024,408	\$ 75,596
2,699,711	2,623,843	2,623,843	-	429,301	379,059	379,059	-
1,925,533	2,201,284	2,203,551	2,267	240,127	222,181	222,181	-
12,148,113	12,952,702	12,914,992	(37,710)	3,508,486	3,550,052	3,625,648	75,596
-	-	-	-	-	-	-	-
1,888,556	2,290,377	2,318,109	27,732	19,425	56,798	55,377	(1,421)
3,725,706	4,014,547	4,004,507	(10,040)	53,651	41,046	41,046	-
980,577	806,137	756,528	(49,609)	734,935	698,553	677,993	(20,560)
985,291	810,810	786,843	(23,967)	73,402	101,258	101,465	207
365,880	410,287	387,993	(22,294)	78,088	85,782	79,408	(6,374)
419,922	406,666	383,111	(23,555)	-	-	-	-
1,185,209	1,293,041	1,262,530	(30,511)	-	-	-	-
294,727	310,704	301,602	(9,102)	69,426	323,267	344,184	20,917
4,000	29,046	29,633	587	-	-	-	-
81,540	83,423	101,291	17,868	-	-	-	-
2,092,075	2,131,839	2,134,817	2,978	2,318,094	3,140,730	3,142,827	2,097
12,023,483	12,586,877	12,466,964	(119,913)	3,347,021	4,447,434	4,442,300	(5,134)
124,630	365,825	448,028	82,203	161,465	(897,382)	(816,652)	80,730
(5,000)	-	-	-	-	-	-	-
119,630	365,825	448,028	82,203	161,465	(897,382)	(816,652)	80,730
4,756,695	4,756,695	4,756,695	-	2,200,987	2,200,987	2,200,987	-
\$ 4,876,325	\$ 5,122,520	\$ 5,204,723	\$ 82,203	\$ 2,362,452	\$ 1,303,605	\$ 1,384,335	\$ 80,730

CHARLEVOIX - EMMET INTERMEDIATE SCHOOL DISTRICT

**STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUND**

JUNE 30, 2005

Assets	
Cash	\$ 52,064
Accounts receivable	<u>45</u>
Total assets	<u><u>\$ 52,109</u></u>
Liabilities	
Due to student groups	<u><u>\$ 52,109</u></u>

The accompanying notes are an integral part of these financial statements.

CHARLEVOIX-EMMET INTERMEDIATE SCHOOL DISTRICT

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NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2005

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CHARLEVOIX-EMMET INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

Charlevoix-Emmet Intermediate School District (the "District") has followed the guidelines of the Governmental Accounting Standards Board's Statement No. 14 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District has *fiduciary activities* during the year ended June 30, 2005, but no *business-type activities*.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CHARLEVOIX-EMMET INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

Property taxes, state school aid, expenditure driven grant revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the District receives cash.

The District reports the following major governmental funds:

The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Special Education Fund* accounts for monies received from Federal, State and Local sources which are restricted to instruction and services related to special education.

The *Vocational Education Fund* accounts for monies received from federal, state and local sources that are restricted to instruction and services related to providing vocational education.

The *Debt Service Fund* accounts for the accumulation of resources for, and the payment of, principal, interest, and related costs.

The *Capital Projects Fund* accounts for the acquisition or construction of capital assets.

Additionally, the government reports the following fund types:

The *School Lunch Fund* accounts for the monies and commodities received from Federal, State, and Local sources, which are restricted to food services.

The *Agency Fund* accounts for assets held for other groups in an agency capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

CHARLEVOIX-EMMET INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes, unrestricted grants and interest income.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

The effect of interfund activity has been eliminated from the government-wide financial statements.

D. Assets, liabilities and net assets or equity

1. Deposits and investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. All investments are recorded at fair value.

Statutory Authority

Michigan law authorizes the District to deposit and invest in:

- a. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the state. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- b. Certificates of deposit insured by a state or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this state.
- c. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- d. Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- e. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- f. Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district

The District's investment policy allows for all of these types of investments.

CHARLEVOIX-EMMET INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

2. *Receivables and payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

3. *Inventories*

Inventories, which consist of supplies are valued at cost on the first-in/first-out (FIFO) method. Inventories are recorded as expenditures when consumed rather than when purchased.

4. *Capital assets*

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	5-50
Buildings	50
Vehicles	7-10
Equipment	5-20

CHARLEVOIX-EMMET INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

4. *Long-term obligations*

In the government-wide financial statements, long-term debt obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

5. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

The General and Special Revenue Funds are under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with accounting principles generally accepted in the United States of America, and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budgets for the General and Special Revenue Funds are adopted on a functional basis. All annual appropriations lapse at fiscal year end.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to June 30, the superintendent of the District submits to the Board of Education a proposed operating budget for the fiscal year commencing July 1 of that year. The operating budget includes proposed expenditures and the means of financing them for the General, Special Education, Vocational Education, School Lunch, and Debt Service Funds, as well as estimated total costs and proposed methods of financing all capital construction projects.

CHARLEVOIX-EMMET INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

2. Public hearings are conducted at the Board of Education meetings of the District to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of a resolution, in accordance with Public Act 621 of 1978.
4. Formal budgetary integration is employed as a management control device during the year for all budgetary funds.
5. The District is required under Public Act 621 of 1978 to adopt a budget for the General and individual Special Revenue Funds. For the year ended June 30, 2005, the Board of Education adopted budgets for all funds, except the Agency Fund. Budget appropriations were adopted at a categorical level and lapse at year-end.
6. Budget amounts are reported in the financial statements as originally adopted or as amended by the Board of Education.

B. Excess of expenditures over appropriations

For the year ended June 30, 2005 expenditures exceed appropriations in the General Fund, Special Education and Vocational Educational Special Revenue Funds at the legal level of budgetary control as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Special Education Fund			
Instruction	\$2,290,377	\$2,318,109	\$ 27,732
Community services	29,046	29,633	587
Acquisition of facilities	83,423	101,291	17,868
Payments to other local governmental units	2,131,839	2,134,817	2,978
Vocational Education Fund			
Payments to other local governmental units	3,140,730	3,142,827	2,097

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Cash and cash equivalents and investments are comprised of the following, which includes \$52,064 recorded in fiduciary funds.

Footnote presentation	
Deposits	\$ 852,200
Investments	<u>6,490,852</u>
Total	<u>\$ 7,343,052</u>

CHARLEVOIX-EMMET INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

The District chooses to disclose its investments by specifically identifying each. As of year-end, the District had the following deposits and investments.

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Michigan Liquid Asset Fund	31 days	\$1,820,891	AAAm
Citizens Bank – Treasury Portfolio B	15 days	\$4,669,961	AAA

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note 1 of the summary of significant accounting policies. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity dates for each investment are identified above for investments held at year-end.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in Note 1 of the summary of significant accounting policies. The District's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$964,964 of the District's bank balance of \$1,164,963 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk. Of the above \$6,490,852 of investments, the District has a custodial credit risk exposure of \$6,490,852 because the related securities are uninsured, unregistered and held by the government's brokerage firm which is also the counterparty for these particular securities.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in Note 1 of the summary of significant accounting policies. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. None of the investments held by the District exceeds 5 percent of the District's investments. All investments held at year-end are reported above.

CHARLEVOIX-EMMET INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

B. Capital assets

Capital asset activity in the governmental activities is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 477,145	\$ -	\$ -	\$ 477,145
Capital assets being depreciated				
Land improvements	48,724	391,349	-	440,073
Buildings	2,149,074	-	-	2,149,074
Building improvements	123,410	-	-	123,410
Vehicles	1,579,472	93,469	(124,148)	1,548,793
Equipment	98,926	51,868	-	150,794
Total capital assets being depreciated	<u>3,999,606</u>	<u>536,686</u>	<u>(124,148)</u>	<u>4,412,144</u>
Less accumulated depreciation for				
Land improvements	(3,428)	(15,358)	-	(18,786)
Buildings	(222,763)	(42,981)	-	(265,744)
Building improvements	(3,364)	(2,468)	-	(5,832)
Vehicles	(883,184)	(135,609)	97,959	(920,834)
Equipment	<u>(13,329)</u>	<u>(12,636)</u>	<u>-</u>	<u>(25,965)</u>
Total accumulated depreciation	<u>(1,126,068)</u>	<u>(209,052)</u>	<u>97,959</u>	<u>(1,237,161)</u>
Total capital assets being depreciated, net	<u>2,873,538</u>	<u>327,634</u>	<u>(26,189)</u>	<u>3,174,983</u>
Governmental activities capital assets, net	<u>\$3,350,683</u>	<u>\$ 327,634</u>	<u>\$ (26,189)</u>	<u>\$3,652,128</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities	
Instruction	\$ 69,100
Supporting services	<u>139,952</u>
Total depreciation expense – governmental activities	<u>\$ 209,052</u>

CHARLEVOIX-EMMET INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

C. Interfund receivables, payables and transfers

The composition of interfund balances as of June 30, 2005, is as follows:

	Due From		
	General Fund	Special Education Fund	Total
Due to			
Special Education Fund	\$ 227,786	\$ -	\$ 227,786
Vocational Education Fund	<u>24,546</u>	<u>3,242</u>	<u>27,788</u>
	<u>\$ 252,332</u>	<u>\$ 3,242</u>	<u>\$ 255,574</u>

Interfund balances represent short-term borrowings between funds for cash flow purposes.

For the year ended June 30, 2005, interfund transfers consisted of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
Major governmental funds		
General Fund	\$ -	\$ 2,000
Non-Major governmental fund		
School lunch fund	<u>2,000</u>	<u>-</u>
Total	<u>\$ 2,000</u>	<u>\$ 2,000</u>

Transfers are to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

D. Long-term debt

Long-term debt consists of the 1998 School Improvement Revenue Bonds (Durant Settlement). The bond was issued in the amount of \$1,328,247 with principal amounts due ranging from \$64,292 to \$307,223, and interest payable at 4.8% through 2013. Principal and interest is payable by an annual State of Michigan appropriation to the District. The current amount outstanding is \$64,292.

During the year ended June 30, 2003, the State postponed all Durant debt service requirements until June 30, 2006; therefore there were no changes in long-term debt for the year ended June 30, 2005.

CHARLEVOIX-EMMET INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 64,292	\$ 28,982	\$ 93,274
2007	307,223	132,921	440,144
2008	70,561	22,714	93,275
2009	73,921	19,355	93,276
2010	77,437	15,835	93,272
2011-2014	<u>255,139</u>	<u>24,672</u>	<u>279,811</u>
Totals	<u>\$ 848,573</u>	<u>\$ 244,479</u>	<u>\$1,093,052</u>

Compensated absences

The district initially recorded accrued compensated absences in the amount of \$26,244 as of June 30, 2005.

IV. OTHER INFORMATION

A. Risk management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters.

The District belongs to the SET-SEG Property/Casualty Pool, Inc., a public entity risk pool currently operating as a common risk management and insurance program for various school Districts throughout the state. The District pays an annual premium for its general insurance coverage. The pool is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of \$500,000 for each insured event. Although the District could be assessed charges beyond the annual premium, the likelihood of receiving such an assessment is minimal.

The District also belongs to the SEG Self-Insured Worker's Disability Compensation Fund, a public entity risk pool currently operating as a common risk management and worker's compensation insurance program for various school Districts throughout the state. The District pays an annual premium for its worker's compensation insurance coverage. The pool is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of \$500,000 for each insured event. Although the District could be assessed charges beyond the annual premium, the likelihood of receiving such an assessment is minimal.

The District became self-insured in health, dental, and vision insurance during the year. Blue Cross and Blue Shield is the third party administrator. They have a stop loss coverage with Blue Cross Blue Shield of Michigan for any claims exceeding \$50,000.

CHARLEVOIX-EMMET INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

The health insurance claims liability of \$22,187 reported in the General, Special and Vocational Educational Special Revenue Funds at June 30, 2005, is based on the requirements of Governmental Accounting Standards Board Statement #10, which requires that a liability for claims be reported if it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. The claims liability is reported based on information from the insurance agent. No annuity contracts have been purchased for claims liability.

The change in this liability for the years ended June 30, 2005 is as follows:

Claims liability at beginning of year	\$ -
Claims and damages incurred	773,677
Claims payments	<u>751,490</u>
Claims liability at end of year	<u>\$ 22,187</u>

B. Property taxes

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of July 1 or December 1 of the following year by the various governmental units within the District. Delinquent real taxes are advanced to the District by the Revolving Tax Funds of the counties within the District.

C. Defined benefit pension plan

Plan Description

The District contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions are established and must be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired

CHARLEVOIX-EMMET INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The current rate is 14.87% of annual covered payroll. The contribution requirements of plan members and the District are established by Michigan state statute and may be amended only by action of the State Legislature. The District's contributions to MPSERS for the years ended June 30, 2005, 2004 and 2003 were \$1,212,373, \$1,063,461, and \$1,060,863, respectively, equal to the required contributions for each year.

Other post-employment benefits

Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminated employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

D. Contingencies

Federal Grant Programs

The District participates in federally assisted grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the District expects such amounts, if any, not to be material.

* * * * *

CHARLEVOIX - EMMET INTERMEDIATE SCHOOL DISTRICT

GENERAL FUND SCHEDULE OF EXPENDITURES

FOR THE YEAR ENDED JUNE 30, 2005

	<u>Salaries</u>	<u>Benefits</u>	<u>Purchased Services</u>
Instruction			
Added needs			
Compensatory education	\$ 608,220	\$ 294,859	\$ 78,064
Supporting services			
Pupil services			
Guidance services	294,176	157,114	44,080
Other pupil support services	184,236	50,041	15,729
Total pupil services	478,412	207,155	59,809
Instructional staff			
Direction of instructional staff	203,299	103,403	57,757
Other instructional support services	177,335	72,643	59,017
Total instructional staff	380,634	176,046	116,774
General administration			
Board of education	2,280	7,777	65,584
Other administrative support services	-	-	2,381
Executive administration	224,964	201,697	40,796
Total general administration	227,244	209,474	108,761

<u>Supplies & Materials</u>	<u>Capital Outlay</u>	<u>Other Expenditures</u>	<u>Total</u>
<u>\$ 19,825</u>	<u>\$ 577</u>	<u>\$ 1,541</u>	<u>\$ 1,003,086</u>
25,106	-	170	520,646
28,308	1,573	345	280,232
<u>53,414</u>	<u>1,573</u>	<u>515</u>	<u>800,878</u>
3,726	-	100	368,285
49,148	-	1,090	359,233
<u>52,874</u>	<u>-</u>	<u>1,190</u>	<u>727,518</u>
21	-	6,266	81,928
8,940	55	2	11,378
606	-	2,964	471,027
<u>9,567</u>	<u>55</u>	<u>9,232</u>	<u>564,333</u>

Continued ...

CHARLEVOIX - EMMET INTERMEDIATE SCHOOL DISTRICT

GENERAL FUND SCHEDULE OF EXPENDITURES (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2005

	Salaries	Benefits	Purchased Services
Business services			
Fiscal services	\$ 432,249	\$ 198,714	\$ 13,041
Operation and maintenance			
Operation and maintenance of plant	11,849	2,824	90,468
Transportation			
Pupil transportation	42,161	16,425	7,734
Other support			
Communication and marketing	18,866	11,005	7,208
Information management	17,440	7,685	1,100
Pupil accounting	44,697	30,362	13,350
Other support services	50,545	8,805	55,307
Total other support	131,548	57,857	76,965
Total supporting services	1,704,097	868,495	473,552
Community services	-	-	1,855
Payments to other governmental units			
Local school districts	-	-	-
Community health agencies	-	-	-
Total payments to other governmental units	-	-	-
Total expenditures	\$ 2,312,317	\$ 1,163,354	\$ 553,471

<u>Supplies & Materials</u>	<u>Capital Outlay</u>	<u>Other Expenditures</u>	<u>Total</u>
\$ 8,622	\$ 725	\$ 4,234	\$ 657,585
25,702	32,156	-	162,999
16,355	-	70	82,745
476	-	491	38,046
700	-	214	27,139
2,958	-	235	91,602
3,797	1,418	14	119,886
7,931	1,418	954	276,673
174,465	35,927	16,195	3,272,731
703	-	-	2,558
-	-	475,626	475,626
-	-	26,495	26,495
-	-	502,121	502,121
<u>\$ 194,993</u>	<u>\$ 36,504</u>	<u>\$ 519,857</u>	<u>\$ 4,780,496</u>

Concluded

CHARLEVOIX - EMMET INTERMEDIATE SCHOOL DISTRICT**SPECIAL EDUCATION FUND
SCHEDULE OF EXPENDITURES****FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Salaries</u>	<u>Benefits</u>	<u>Purchased Services</u>
Instruction			
Added needs			
Special education	\$ 1,463,301	\$ 785,300	\$ 34,637
Supporting services			
Pupil services			
Health services	303,378	112,386	62,703
Psychological services	570,589	228,559	11,009
Speech, pathology and audiology	776,712	356,266	28,548
Social work services	420,690	182,631	12,328
Visual aid services	61,396	30,663	4,658
Teacher consultants	325,195	140,307	11,091
Other pupil support services	198,765	109,064	26,160
Total pupil	2,656,725	1,159,876	156,497
Instructional staff			
Direction of instructional staff	197,275	144,065	101,445
Improvement of instruction	152,745	63,332	40,823
Other instructional support services	-	-	-
Total instructional staff	350,020	207,397	142,268
General administration			
Board of education	-	8,598	66,752
Executive administration	403,087	256,766	22,892
Total general administration	403,087	265,364	89,644
Business services			
Fiscal services	225,873	110,457	33,714
Operation and maintenance			
Operation and maintenance of plant	63,912	41,016	127,809

<u>Supplies & Materials</u>	<u>Capital Outlay</u>	<u>Other Expenditures</u>	<u>Total</u>
\$ 33,591	\$ 1,190	\$ 90	\$ 2,318,109
11,342	-	450	490,259
1,102	-	285	811,544
8,564	-	2,124	1,172,214
1,017	-	135	616,801
2,040	-	425	99,182
2,876	-	-	479,469
748	-	301	335,038
27,689	-	3,720	4,004,507
26,244	6,685	1,042	476,756
21,503	-	-	278,403
-	1,369	-	1,369
47,747	8,054	1,042	756,528
48	-	-	75,398
24,871	2,304	1,525	711,445
24,919	2,304	1,525	786,843
9,541	4,359	4,049	387,993
89,237	61,067	70	383,111

Continued...

CHARLEVOIX - EMMET INTERMEDIATE SCHOOL DISTRICT

**SPECIAL EDUCATION FUND
SCHEDULE OF EXPENDITURES**

FOR THE YEAR ENDED JUNE 30, 2005

	<u>Salaries</u>	<u>Benefits</u>	<u>Purchased Services</u>
Transportation			
Pupil transportation	<u>625,286</u>	<u>309,735</u>	<u>122,865</u>
Other support			
Communication and marketing	25,887	15,128	16,561
Information management	35,344	17,515	6,291
Other support services	<u>52,707</u>	<u>109,861</u>	<u>10,248</u>
Total other support	<u>113,938</u>	<u>142,504</u>	<u>33,100</u>
Total supporting services	<u>4,438,841</u>	<u>2,236,349</u>	<u>705,897</u>
Community services	<u>-</u>	<u>-</u>	<u>29,446</u>
Acquisition of facilities	<u>-</u>	<u>-</u>	<u>-</u>
Payments to other governmental units			
Local school districts	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>\$ 5,902,142</u>	<u>\$ 3,021,649</u>	<u>\$ 769,980</u>

<u>Supplies & Materials</u>	<u>Capital Outlay</u>	<u>Other Expenditures</u>	<u>Total</u>
<u>179,001</u>	<u>24,695</u>	<u>948</u>	<u>1,262,530</u>
1,371	-	1,278	60,225
3,625	1,369	474	64,618
<u>1,445</u>	<u>2,456</u>	<u>42</u>	<u>176,759</u>
<u>6,441</u>	<u>3,825</u>	<u>1,794</u>	<u>301,602</u>
<u>384,575</u>	<u>104,304</u>	<u>13,148</u>	<u>7,883,114</u>
<u>187</u>	<u>-</u>	<u>-</u>	<u>29,633</u>
<u>-</u>	<u>101,291</u>	<u>-</u>	<u>101,291</u>
<u>-</u>	<u>-</u>	<u>2,134,817</u>	<u>2,134,817</u>
<u>\$ 418,353</u>	<u>\$ 206,785</u>	<u>\$ 2,148,055</u>	<u>\$ 12,466,964</u>

Concluded

CHARLEVOIX - EMMET INTERMEDIATE SCHOOL DISTRICT

**VOCATIONAL EDUCATION FUND
SCHEDULE OF EXPENDITURES**

FOR THE YEAR ENDED JUNE 30, 2005

	<u>Salaries</u>	<u>Benefits</u>	<u>Purchased Services</u>
Instruction			
Added needs			
Vocational education	<u>\$ 20,446</u>	<u>\$ 1,994</u>	<u>\$ 9,890</u>
Supporting services			
Pupil services			
Counselor	<u>29,627</u>	<u>10,825</u>	<u>594</u>
Instructional staff			
Direction of instructional staff	93,753	76,553	26,624
Improvement of instruction	<u>207,523</u>	<u>101,633</u>	<u>105,112</u>
Total instructional staff	<u>301,276</u>	<u>178,186</u>	<u>131,736</u>
General administration			
Executive administration	<u>59,788</u>	<u>40,833</u>	<u>191</u>
Business services			
Fiscal services	<u>46,065</u>	<u>23,471</u>	<u>-</u>
Other support			
Communication and marketing	34,430	19,857	-
Information management	<u>-</u>	<u>-</u>	<u>5,238</u>
Total other support	<u>34,430</u>	<u>19,857</u>	<u>5,238</u>
Total supporting services	<u>471,186</u>	<u>273,172</u>	<u>137,759</u>
Payments to other governmental units			
Local school districts	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u><u>\$ 491,632</u></u>	<u><u>\$ 275,166</u></u>	<u><u>\$ 147,649</u></u>

<u>Supplies & Materials</u>	<u>Capital Outlay</u>	<u>Other Expenditures</u>	<u>Total</u>
<u>\$ 23,047</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 55,377</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>41,046</u>
<u>1,702</u>	<u>-</u>	<u>2,090</u>	<u>200,722</u>
<u>55,124</u>	<u>6,490</u>	<u>1,389</u>	<u>477,271</u>
<u>56,826</u>	<u>6,490</u>	<u>3,479</u>	<u>677,993</u>
<u>653</u>	<u>-</u>	<u>-</u>	<u>101,465</u>
<u>-</u>	<u>-</u>	<u>9,872</u>	<u>79,408</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>54,287</u>
<u>233,271</u>	<u>51,388</u>	<u>-</u>	<u>289,897</u>
<u>233,271</u>	<u>51,388</u>	<u>-</u>	<u>344,184</u>
<u>290,750</u>	<u>57,878</u>	<u>13,351</u>	<u>1,244,096</u>
<u>-</u>	<u>-</u>	<u>3,142,827</u>	<u>3,142,827</u>
<u><u>\$ 313,797</u></u>	<u><u>\$ 57,878</u></u>	<u><u>\$ 3,156,178</u></u>	<u><u>\$ 4,442,300</u></u>

CHARLEVOIX - EMMET INTERMEDIATE SCHOOL DISTRICT

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND**

FOR THE YEAR ENDED JUNE 30, 2005

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
Assets				
Cash	\$ 52,519	\$ 27,606	\$ 28,061	\$ 52,064
Accounts receivable	-	45	-	45
Total assets	<u>\$ 52,519</u>	<u>\$ 27,651</u>	<u>\$ 28,061</u>	<u>\$ 52,109</u>
Liabilities				
Due to student groups	<u>\$ 52,519</u>	<u>\$ 27,651</u>	<u>\$ 28,061</u>	<u>\$ 52,109</u>

**CHARLEVOIX-EMMET INTERMEDIATE
SCHOOL DISTRICT**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE/GRANT NUMBER	FEDERAL CFDA NUMBER	APPROVED AWARD/GRANT AMOUNT	ACCRUED (DEFERRED)		(Memo Only) Prior Year Expenditures	CURRENT YEAR EXPENDITURES	CURRENT YEAR CASH RECEIPTS	ACCRUED (DEFERRED)	
			JULY 1, 2004 REVENUE	JUNE 30, 2005 REVENUE				04/05 REVENUE RECORDED	
U.S. DEPARTMENT OF EDUCATION									
Passed through Michigan Department of Education:									
Capacity Building, 050490/CB, 2004-05	1	84,027	\$ 21,528	\$ -	\$ -	21,528	\$ 21,528	\$ -	\$ 21,528
Flow-Through, 050450/0405, 2004-05	1	84,027	1,817,482	-	-	1,817,482	1,817,482	-	1,817,482
Transition, 050490/TS, 2004-05	1	84,027	70,000	-	-	70,000	70,000	-	70,000
State Initiated EOSD, 050480/EOSD, 2004-05	1	84,027	40,000	-	-	40,000	40,000	-	40,000
Total		84,027	1,949,010	-	-	1,949,010	1,949,010	-	1,949,010
IDEA P.L. 94-142									
Preschool Incentive, 040460/0203, 2003-05		84,173	46,607	8,894	46,607	-	8,894	-	-
Preschool Incentive, 050460/0405, 2004-05	1	84,173	46,625	-	-	46,625	46,625	-	46,625
Total		84,173	93,232	8,894	46,607	46,625	55,519	-	46,625
Even Start New Horizon, 050390/C0543CES, 2004-05									
Even Start Northwest, 050390/B0542CES, 2004-05		84,213	225,000	-	-	225,000	225,000	-	225,000
		84,213C	225,000	-	-	225,000	225,000	-	225,000
Total		83,213	450,000	-	-	450,000	450,000	-	450,000
Infant & Toddler Early Intervention, 041340/190, 2003-04									
Infant & Toddler Early Intervention, 051340/190, 2004-05		84,181	130,153	1,283	68,068	62,085	63,368	-	62,085
		84,181	120,170	-	-	49,784	37,804	11,980	49,784
Total		84,181	250,323	1,283	68,068	111,869	101,172	11,980	111,869
Drug Free Grant 052860/0405, 2004-05									
		84,186A	57,603	-	-	57,603	57,603	-	57,603
Total		84,186	57,603	-	-	57,603	57,603	-	57,603
Total passed through Michigan Department of Education									
			2,800,168	10,177	114,675	2,615,107	2,613,304	11,980	2,615,107
Passed Through TBA ISD									
State Initiated-TMT 2004-05	1	84,027	2,700	-	-	2,700	2,700	-	2,700
Vocational Education-Perkins III, Title II, Tech Prep 2004-05	1	84,243A	32,404	-	-	32,404	32,404	-	32,404
Passed through Wexford-Missaukee ISD									
Vocational Education, Secondary CTE Perkins Grant, 2004-05		84,048	119,777	-	-	119,777	119,777	-	119,777

**CHARLEVOIX-EMMET INTERMEDIATE
SCHOOL DISTRICT**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE/GRANT NUMBER	FEDERAL CFDA NUMBER	APPROVED AWARD/GRANT AMOUNT	ACCRUED (DEFERRED) REVENUE JULY 1, 2004	(Memo Only) Prior Year Expenditures	CURRENT YEAR EXPENDITURES	CURRENT YEAR CASH RECEIPTS	ACCRUED (DEFERRED) REVENUE JUNE 30, 2005	04/05 REVENUE RECORDED
Passed through Clinton County RESA								
MPHI Grant 2003-04	84.181	\$ 108,834	\$ 21,463	\$ 92,430	\$ 16,404	\$ 37,867	\$ -	\$ 16,404
MPHI Grant 2004-05	84.181	66,481	-	-	66,481	66,481	-	66,481
		175,315	21,463	92,430	82,885	104,348	-	82,885
Total passed through other state districts/agencies								
		330,196	21,463	92,430	237,766	259,229	-	237,766
TOTAL U.S. DEPARTMENT OF EDUCATION								
		3,130,364	31,640	207,105	2,852,873	2,872,533	11,980	2,852,873
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES								
Passed through Michigan Family Independence Agency								
Kindergarten Transition 2004-05	93.556	13,783	-	-	11,264	11,264	-	11,264
Chpr-01-15001-2003-04	93.558	25,000	2,487	21,804	3,196	5,683	-	3,196
Chpr-05-15001-2004-05	93.558	25,000	-	-	15,504	13,476	2,028	15,504
Total passed through Michigan Family Independence Agency								
		63,783	2,487	21,804	29,964	30,423	2,028	29,964
Passed Through Northwest Michigan Community Health								
Teen Services 2003-04	93.558	26,846	4,879	20,644	6,202	11,081	-	6,202
Teen Services 2004-05	93.558	26,846	-	-	19,926	14,989	4,937	19,926
Total passed through Northwest Michigan Community Health								
		53,692	4,879	20,644	26,128	26,070	4,937	26,128
Passed through Michigan Department of Community Health								
Medicaid Administrative Outreach 2004-05	93.778	117,103	-	36,640	80,463	80,463	-	80,463
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES								
		234,578	7,366	79,088	136,555	136,956	6,965	136,555
CORPORATION FOR NATIONAL SERVICE								
Passed Through Michigan Community Service Commission								
Michigan Americorps, 2002-03, 00ASCM00232601	94.006	211,470	-	201,637	9,833	9,833	-	9,833
Michigan Americorps, 2003-04, 03AFHM0020010	94.006	111,675	19,817	97,705	13,970	33,787	-	13,970
Michigan Americorps, 2004-05, 03AFHM0020010	94.006	125,307	-	-	125,307	101,908	23,399	125,307
TOTAL CORPORATION FOR NATIONAL SERVICE								
		448,452	19,817	299,342	149,110	145,528	23,399	149,110

**CHARLEVOIX-EMMET INTERMEDIATE
SCHOOL DISTRICT**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE/GRANT NUMBER	FEDERAL CFDA NUMBER	APPROVED AWARD/GRANT AMOUNT	ACCRUED (DEFERRED) REVENUE		(Memo Only) Prior Year Expenditures	CURRENT YEAR EXPENDITURES	CURRENT YEAR CASH RECEIPTS	ACCRUED (DEFERRED) REVENUE JUNE 30, 2005	04/05 REVENUE RECORDED
			JULY 1, 2004						
U.S. DEPARTMENT OF AGRICULTURE									
Passed through Michigan Department of Education									
National School Lunch Sec. 4									
Lunch 041950	10.555	\$ 718	\$ -	\$ 581	\$ 137	\$ 137	\$ -	\$ 137	137
Lunch 051950	10.555	796	-	-	796	746	50	796	796
National School Lunch Sec. 11									
Lunch 041950	10.555	4,624	-	3,874	750	750	-	750	750
Lunch 051950	10.555	5,832	-	-	5,832	5,588	244	5,832	5,832
National School Breakfast									
Breakfast 041970	10.553	1,116	-	1,026	90	90	-	90	90
Breakfast 051970	10.553	1,101	-	-	1,101	1,063	38	1,101	1,101
Entitlement Commodities	10.550	1,515		646	869	869	-	869	869
Entitlement Bonus	10.550	19	-	-	19	19	-	19	19
TOTAL U.S. DEPARTMENT OF AGRICULTURE		15,721	-	6,127	9,594	9,262	332	9,594	9,594
TOTAL FEDERAL AWARDS									
	\$	3,829,115	\$ 58,823	\$ 591,662	\$ 3,148,132	\$ 3,164,279	\$ 42,676	\$ 3,148,132	

Notes to schedule of Expenditures of Federal Awards

- These programs are considered a cluster for determining program types.
- The Schedule of Expenditures of Federal Awards includes the federal grant activity of the District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. Audits of States, Local Governments, and Non Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented or used in the preparation of the basic financial statements.

CHARLEVOIX - EMMET INTERMEDIATE SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS PROVIDED TO SUBRECIPIENTS

For the fiscal year ended June 30, 2005

Program Title/Grant Number Subrecipient Name	Federal CFDA Number	Subrecipient Award/Contract Amount	Due to (from) Subrecipient July 1, 2004
DRUG FREE FORMULA	84.186		
Passed through to			
Beaver Island Community Schools		\$ 220	\$ -
Boyne City Public Schools		375	-
Charlevoix Public Schools		4,896	-
East Jordan Public Schools		525	-
Harbor Springs Public Schools		2,428	-
Littlefield Public Schools		3,180	-
Public Schools of Petoskey		3,446	-
Total Drug Free Schools		15,069	-
EVEN START	84.213		
Passed through to			
Boyne City Public Schools		459	-
Charlevoix Public Schools		680	-
Total Evenstart		1,139	-
IDEA FLOW THROUGH	84.027		
Passed through to			
Boyne City Public Schools		14	-
Ellsworth Community Schools		22	-
Harbor Springs Public Schools		250	-
Public Schools of Petoskey		720	-
Total Idea Flow Through		1,006	-
MICHIGAN TRANSITION INITIATIVE	84.027		
Passed through to			
Beaver Island Schools		130	-
Boyne City Public Schools		1,731	-
Boyne Falls School		1,120	-
Central Lake Schools		1,340	-
Charlevoix Public Schools		1,942	-
Concord Academy - Boyne		640	-
East Jordan Public Schools		1,655	-
Ellsworth Community Schools		820	-
Harbor Springs Public Schools		1,470	-
Littlefield Schools		1,300	-
Northwest Academy		995	-
Pellston Public Schools		1,535	-
Public Schools of Petoskey		2,283	-
Total Michigan Transition Initiative		16,960	-

<u>Subrecipient Current Year Expenditures</u>	<u>Current Year Cash Transferred To Subrecipient</u>	<u>Due to (from) Subrecipient June 30, 2005</u>
\$ 220	\$ 220	\$ -
375	375	-
4,896	4,896	-
525	525	-
2,428	2,428	-
3,180	3,180	-
3,446	3,446	-
<u>15,069</u>	<u>15,069</u>	<u>-</u>
459	459	-
680	680	-
<u>1,139</u>	<u>1,139</u>	<u>-</u>
14	14	-
22	22	-
250	250	-
720	720	-
<u>1,006</u>	<u>1,006</u>	<u>-</u>
130	130	-
1,731	1,731	-
1,120	1,120	-
1,340	1,340	-
1,942	1,942	-
640	640	-
1,655	1,655	-
820	820	-
1,470	1,470	-
1,300	1,300	-
995	995	-
1,535	1,535	-
2,283	2,283	-
<u>16,960</u>	<u>16,960</u>	<u>-</u>

CHARLEVOIX - EMMET INTERMEDIATE SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS PROVIDED TO SUBRECIPIENTS

For the fiscal year ended June 30, 2005

Program Title/Grant Number Subrecipient Name	Federal CFDA Number	Subrecipient Award/Contract Amount	Due to (from) Subrecipient July 1, 2004
MEDICAID ADMINISTRATIVE OUTREACH	93.778		
Passed through to			
Boyne City Public Schools		\$ 4,745	\$ -
Boyne Falls Schools		1,163	-
Central Lake Schools		1,921	-
Charlevoix Public Schools		5,605	-
Concord Academy - Petoskey		289	-
East Jordan Public Schools		5,799	-
Ellsworth Community Schools		1,137	-
Harbor Springs Public Schools		2,597	-
Littlefield Schools		2,203	-
Northwest Academy		316	-
Pellston Public Schools		778	-
Public Schools of Petoskey		14,727	-
Total Medicaid Administrative Outreach		41,280	-
VOCATIONAL ED, PERKINS	84.048		
Passed through to			
Central Lake Public Schools		427	-
Charlevoix Public Schools		458	-
Littlefield Public Schools		248	-
Total Vocational Ed, Perkins III, Title II		1,133	-
Total Federal Funds Passed Through to Subrecipients		<u>\$ 76,587</u>	<u>\$ -</u>

<u>Subrecipient Current Year Expenditures</u>	<u>Current Year Cash Transferred To Subrecipient</u>	<u>Due to (from) Subrecipient June 30, 2005</u>
\$ 4,745	\$ 4,745	\$ -
1,163	1,163	-
1,921	1,921	-
5,605	5,605	-
289	289	-
5,799	5,799	-
1,137	1,137	-
2,597	2,597	-
2,203	2,203	-
316	316	-
778	778	-
14,727	14,727	-
<u>41,280</u>	<u>41,280</u>	<u>-</u>
427	427	-
458	458	-
248	248	-
<u>1,133</u>	<u>1,133</u>	<u>-</u>
<u>\$ 76,587</u>	<u>\$ 76,587</u>	<u>\$ -</u>

CHARLEVOIX - EMMET INTERMEDIATE SCHOOL DISTRICT

RECONCILIATION TO GRANT SECTION AUDITORS' REPORT

FOR THE YEAR ENDED JUNE 30, 2005

Reconciliation to Grant Section Auditors' Report

Current payments per the Grant Sections Auditors' Report	\$ 2,622,710
Less revenue confirmed on the Grant Sections Auditors' Report relating to prior year revenue	
IDEA P.S. 94-142	(8,894)
Infant and Toddler Early Intervention, 051340/190, 2004-05	(1,283)
Less State funded school breakfast	(1,032)
Plus revenues not confirmed on the Grant Sections Auditors' Report	
Infant and Toddler Early Intervention, 051340/190, 2004-05	11,980
State Initiated - TMT 2004-05	2,700
Vocational education - Perkins III, Title II, Tech Prep.	32,404
Vocational Education, Secondary CTE Perkins Grant, 2004-05	119,777
MPHI Grant 2003-04	16,404
MPHI Grant 2004-05	66,481
Kindegarten Transition	11,264
Chpr-01-15001-2003-04	3,196
Chpr-01-15001-2004-05	15,504
Teen Services 2003-04	6,202
Teen Services 2004-05	19,926
Medicaid Administrative Outreach 2004-05	80,463
Michigan Americorps 2002-03	9,833
Michigan Americorps 2003-04	13,970
Michigan Americorps 2004-05	125,307
National School Lunch Sec. 4	50
National School Lunch Sec. 11	244
National School Breakfast	38
Entitlement Commodities	888

Total current year receipts per Schedule of Expenditures of Federal Awards	<u>\$ 3,148,132</u>
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Reconciliation to financial statements

Current year expenditures per the Schedule of Expenditures of Federal Awards	<u>\$ 3,148,132</u>
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Total Federal revenue/sources per financial statements	<u>\$ 3,148,132</u>
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REHMANN ROBSON

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

July 29, 2005

Board of Education
Charlevoix-Emmet Intermediate School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Charlevoix-Emmet Intermediate School District* (the "District") as of and for the year ended June 30, 2005, and have issued our report thereon dated July 29, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the District in a separate letter dated July 29, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The

results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of management, members of the Board of Education, federal awarding agencies, pass-through entities and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, prominent 'L' at the beginning.



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A - 133**

July 29, 2005

Board of Education
Charlevoix-Emmet Intermediate School District

Compliance

We have audited the compliance of *Charlevoix-Emmet Intermediate School District* (the "District") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in

order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, others within the organization, the Board of Education, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, reading "Lehmann Lohman". The signature is written in dark ink and is positioned in the center-right of the page.

CHARLEVOIX- EMMET INTERMEDIATE SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005

SECTION 1 - SUMMARY OF AUDITORS RESULTS:

Financial Statements

Type of Auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness identified?	No
Reportable conditions identified not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Reportable conditions identified not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	No
Identification of major programs:	

<u>CFDA #</u>	<u>Name of Program</u>
84.027	Special Education Cluster
84.213	Evenstart

Dollar threshold to distinguish between type A and type B programs:	\$300,000
Auditee qualified as a low risk auditee?	No

SECTION II – FINANCIAL STATEMENT FINDINGS

No financial statement findings are reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings or questioned costs are reported.

CHARLEVOIX- EMMET INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2005

SECTION IV – SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

2004-01 Payroll documentation

Condition – Payroll costs are not supported with periodic certifications for those employees who are expected to work solely on a single federal award or personnel activity reports or equivalent documentation for those employees who work on multiple activities.

Criteria – OMB Circular A-87 requires periodic certifications for those employees who are expected to work solely on a single federal award or personnel activity reports or equivalent documentation for those employees who work on multiple activities.

Effect – This causes the ISD to be in noncompliance with OMB Circular A-87's support of salaries and wages requirements. Since activity reports were not completed for the whole year, it is undeterminable if there are any questioned costs to a certain program.

Recommendation – The ISD should implement a policy whereby employees who work solely on a federal award sign a periodic certification stating that fact, and for those employees who work on multiple activities, personnel activity reports or equivalent documentation should be prepared at least on a quarterly basis and actual costs should be compared to the budgeted distributions based on the reports.

SECTION V – CORRECTIVE ACTION PLAN

Management has implemented a policy where all employees who work solely on a federal award signs a certification stating that fact. In addition, for those employees who work on multiple activities, personnel activity reports are being prepared, and will be compared to budgeted distributions on a quarterly basis.



REHMANN ROBSON

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July 29, 2005

Board of Education
Charlevoix Emmet Intermediate School District
Charlevoix, Michigan

In planning and performing our audit of the financial statements of the ***Charlevoix Emmet Intermediate School District*** as of and for the year ended June 30, 2005, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of some matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated July 29, 2005 on the financial statements of ***Charlevoix Emmet Intermediate School District***.

We will review the status of these comments and suggestions during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters or to assist you in implementing the recommendations.

We would like to thank everyone at the District who assisted us during the audit and would like to commend the Business office for the excellent work they do to provide useful and accurate accounting information for the audit and for the citizens of the ***Charlevoix Emmet Intermediate School District***.

Sincerely,

Charlevoix-Emmet Intermediate School District

Comments and Recommendations

A) Fraud

As the issue of fraud arises more and more, we would like to communicate to you several avenues where fraud can be deterred including the following:

- 1) **Requiring periodic job rotation and mandatory vacations.** When an employee stays in the same position for a long period and has few absences, an opportunity exists for that employee to design and commit fraud schemes. Requiring key individuals to rotate job periodically or to transfer to different job functions is one way to address this fraud risk. Requiring all individuals to take an annual vacation, during which time others perform their job functions, also makes it more difficult for an employee who is committing fraud to continue concealing the fraud scheme.
- 2) **Implementing an employee hotline.** Tips and complaints from fellow employees or vendors have enabled many organizations to discover occurrences of fraud. Anonymous telephone hotlines allow honest employees and vendors who may fear retaliation from fraud perpetrators to report unethical behavior without risking exposure.
- 3) **Independent checks of work performed.** Independent checks test another employee's work, such as by having a second employee reperform or test an employee's work.

B) Internal controls over cash receipting

One individual at the District is performing the cash receipt function. With having one individual performing all of these functions there is no independent check of the cash receipts except through review of the financial statements or general ledger detail by management. Without an independent check before funds are being deposited there is no verification that all deposits are complete (all receipts are included) or any chance for review of human error such as transposition of numbers.

Currently, the secretary opens the mail and forwards any cash receipts received, which are primarily checks, to the Finance Assistant. The Finance Assistant codes all the cash receipts to the proper general ledger account, unless a question arises as to where a receipt should be coded. If this occurs, she inquires with the Business Manager as to the correct account. Next, the Finance Assistant enters the receipts into the general ledger and prepares the deposit slip and takes it to the bank at least once a week.

Charlevoix-Emmet Intermediate School District

Comments and Recommendations

Typically, a cash receipt process would include an independent employee, of the Finance Assistant, such as a Secretary log the cash receipts once the mail is open. The receipts would then be forwarded to the Finance Assistant for coding and recording into the general ledger and preparation of the deposit slip. Once the deposit slip was prepared, a copy should be forwarded to the Secretary who maintains the cash receipt log to verify all receipts on the log are being deposited and in the correct amount. The Secretary would initial the deposit slip as verification her records agrees with the Finance Assistant. Then an independent person of both the Finance Assistant and the Secretary would take the deposit to the bank and return the deposit receipt to the Finance Assistant verifying the funds were deposited.

These controls if implemented, would find any human error in receipting and depositing of the funds and assure the deposit is complete with all cash receipts received.

C) Contracts with local school districts

As of fieldwork date the contracts with local school districts for business services did not appear up to date with references to current years or charges. This could lead to potential conflicts if there is not a referenced document, which would determine the resolution. We recommend the District update these contracts to provide resolution if there are any discrepancies in services provided or charges being assessed.